

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

Nordon E. Krater

City of Farmington, Michigan

Financial Report
with Supplemental information
June 30, 2007

City of Farmington, Michigan

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Independent Auditor's Report

To the City Council
City of Farmington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Farmington, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moreau, PLLC

October 12, 2007

City of Farmington, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

The City's annual report has been prepared in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34 and consists of a management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements were designed to provide a broad overview of the City's finances and are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources as measured in the individual fund statements. These statements make a distinction between governmental activities, such as public safety and public works, and business-type activities, such as the provision of water and sewer services. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds and compiled financial information is provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works, proprietary funds, which account for business-type activities such as provision of water and sewer services, and fiduciary funds, which account for assets held for outside parties.

A reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities, such as bonds, accrued interest, and accrued employee leave time, in the government-wide statement of net assets, which are not included in the fund balance sheets; and the recognition of certain revenues and expenditures such as bond proceeds, capital outlays, and debt principal repayment in the individual fund statements, which are not recorded in the government-wide statements.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Financial Position and Results of Operation for the City as a Whole

The City had an increase of \$158,450 in net assets in its governmental activities for the fiscal year ended June 30, 2007. This increase was primarily the result of a planned accumulation of resources in the City's Street Funds for significant current and future road projects.

The City had an increase of \$224,059 in net assets in its business-type activities for the fiscal year ended June 30, 2007, primarily due to an increase in net assets of its Water and Sewer Fund. The increase in the Water and Sewer Fund's net assets related to property tax revenue of \$793,956, which was used to help offset principal and interest payments for the 1990 Sewer Improvement Bonds of \$789,443. Property taxes are recorded as revenue when received. The principal payment is a reduction of a liability and is not recorded as an expense.

In a condensed format, the tables below show the net assets and changes in net assets (in thousands of dollars) as of June 30, 2007 and 2006.

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 10,593	\$ 10,010	\$ 3,222	\$ 3,447	\$ 13,815	\$ 13,457
Noncurrent assets	14,659	14,239	17,644	18,023	32,303	32,262
Total assets	25,252	24,249	20,866	21,470	46,118	45,719
Liabilities						
Current liabilities	965	1,430	1,310	1,329	2,275	2,759
Long-term liabilities	4,586	3,276	3,585	4,395	8,171	7,671
Total liabilities	5,551	4,706	4,895	5,724	10,446	10,430
Net Assets						
Invested in capital assets - Net of related debt	11,202	10,982	13,174	12,768	24,376	23,750
Restricted	2,246	2,375	75	75	2,321	2,450
Unrestricted	6,253	6,186	2,722	2,903	8,975	9,089
Total net assets	<u>\$ 19,701</u>	<u>\$ 19,543</u>	<u>\$ 15,971</u>	<u>\$ 15,746</u>	<u>\$ 35,672</u>	<u>\$ 35,289</u>

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 1,327	\$ 1,296	\$ 3,323	\$ 3,476	\$ 4,650	\$ 4,772
Operating grants and contributions	655	662	-	-	655	662
Capital grants and contributions	72	1,098	3	323	75	1,421
General revenue:						
Property taxes	5,055	4,898	794	788	5,849	5,686
State-shared revenues	943	970	-	-	943	970
Unrestricted investment earnings	510	404	135	118	645	522
Cable franchise fees	71	66	-	-	71	66
Cell tower fees	30	24	-	-	30	24
Miscellaneous	(1)	61	-	-	(1)	61
Transfers	(68)	(70)	68	70	-	-
Gain on sale of capital assets	15	2	-	-	15	2
Total revenue	8,609	9,411	4,323	4,775	12,932	14,186
Program Expenses						
General government	2,258	1,854	-	-	2,258	1,854
Public safety	3,338	3,101	-	-	3,338	3,101
Public works	2,156	2,266	-	-	2,156	2,266
Health and welfare	17	9	-	-	17	9
Community and economic development	26	20	-	-	26	20
Recreation and culture	492	525	-	-	492	525
Interest on long-term debt	164	99	-	-	164	99
Water and sewer	-	-	3,742	3,619	3,742	3,619
Community theatre	-	-	357	387	357	387
Total program expenses	8,451	7,874	4,099	4,006	12,550	11,880
Change in Net Assets	\$ 158	\$ 1,537	\$ 224	\$ 769	\$ 382	\$ 2,306

Governmental Activities

The City continues to experience modest but steady growth in tax revenues, which have been capped by state statute since 1996 at 5 percent, or the rate of inflation. Expenses, which had remained relatively stable over a number of years and within the general rate of inflation, continue to see increases greater than inflation, particularly in insurance premiums, including healthcare premiums, and in the employer contribution for employee pension and retiree healthcare benefits.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

State-shared revenue, statutorily designated to support local community services and historically about 20 percent of the City's general operating revenues, continued to decline in the current year, and is now the third largest revenue source, behind property taxes and charges for service. The State of Michigan continues to capture local government revenues to fund state expenditures. The following is an analysis of the state-shared revenue received by the City:

Year Ended June 30	Statutory Revenue Sharing	Percent Change	Constitutional Revenue Sharing	Percent Change	Total Revenue Sharing	Percent Change
2001	\$ 541,376	-	\$ 676,371	-	\$ 1,217,747	-
2002	480,972	-11.2%	683,261	1.0%	1,164,233	-4.4%
2003	405,331	-15.7%	694,599	1.7%	1,099,930	-5.5%
2004	305,767	-24.6%	687,509	-1.0%	993,276	-9.7%
2005	276,540	-9.6%	702,303	2.2%	978,843	-1.5%
2006	253,471	-8.3%	716,777	2.1%	970,248	-0.9%
2007	238,893	-5.8%	704,061	-1.8%	942,954	-2.8%

The City of Farmington, by policy, strives to maintain a cash surplus sufficient to bridge any expected gap in current year revenues or increases in ordinary, unanticipated current year expenditures. In the General Fund, the City's policy has been to maintain an unreserved fund balance of 25 percent of current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves. In 2007, the City received an "AA" bond rating, with the rating agency analysis noting that "the City's financial management is excellent, with both short- and long-term planning taking place."

Business-type Activities

The City operates a water and sewer system and a theatre. The water and sewer system provides water and sewage services to almost all of the City's residents and to some outside users. Rates are set to provide for annual operations, to service debt, and to build an operating cash reserve. Rates are evaluated annually and increased July 1, 2006 by .64 percent for water and 5.41 percent for sewer. Water loss for the year was approximately 11.05 percent of water purchased, and decreased from the prior year by 8.0 percent.

The City operates a theatre, which ended the year with an increase in net assets of \$3,491. This was an improvement over the prior year, in which the theatre had a decrease in net assets of \$29,167. The improvement in operations was largely the result of efficiencies gained when the City took over operation of the theatre from its management company.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Analysis of Individual Funds

Of the City's governmental funds, the General Fund and the Major and Local Streets Funds account for all significant ongoing expenditures, except for debt service.

The General Fund ended the fiscal year with a reduction in fund balance of \$249,119. Revenue increased approximately \$154,000 in the current year. The primary reasons for this increase were higher property tax revenue, resulting from an increase in taxable values, and higher interest revenue, resulting from rising interest rates.

Expenditures in the General Fund increased approximately \$534,000 in the current year. The primary reasons for the increase relate to funding for the 47th District Court (\$70,000), pension and retiree health costs (\$130,000), retirement incentive programs (\$237,000), and a transfer of property tax millage funds related to the City's sidewalk program from the General Fund to the Capital Improvement Fund (\$105,000).

Both the Major and Local Streets Funds continue to have healthy balances. City streets are in excellent condition, and as a result of a voter-approved millage for street construction and maintenance, funding remains adequate for future road projects and road repair needs.

The Capital Improvement Fund recorded the statutory portion of state-shared revenue as revenue in the current year. Also, the Capital Improvement Fund recorded a transfer in from the General Fund of property tax millage funds related to the City's sidewalk program. Transfers were made to other funds to fund capital purchases and debt service.

The Downtown Capital Projects Fund recorded the second installment of a donation for Riley Park in the current year. Excess funds were transferred to the Capital Improvement Fund to reimburse that fund for money transferred to the Downtown Development Projects Fund in prior years.

The Shiawassee Road Capital Projects Fund recorded proceeds from bonds issued to fund the reconstruction of Shiawassee Road. The expenditures related to this project were recorded in the Major Street Fund and an amount equal to those expenditure was transferred to the Major Street Fund from the Shiawassee Road Capital Projects Fund. Only a portion of the reconstruction occurred prior to June 30, 2007. As a result, only a portion of the bond proceeds was transferred to the Major Street Fund.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

General Operating Fund Budget Highlights

General Fund - Actual revenues exceeded budget by \$40,065. The original budget was amended to include a reduction in revenue of \$3,265. Significant amendments to budgeted revenue included a reduction in property tax revenue related to Michigan Tax Tribunal repayments, a reduction of state-shared revenue in response to the State's slow economy, and an increase in interest and rents as a result of higher than anticipated investment earnings due to an increase in interest rates. Actual expenditures were under budget by \$289,212. Actual expenditures were under budget as a result of small favorable budget variances throughout each City department. The original budget was amended to include an increase in budgeted expenditures of \$395,508. Approximately \$237,000 of this increase was related to early retirement incentives, while \$106,900 related to a transfer of accumulated property tax sidewalk millage funds to the Capital Improvement Fund.

Major, Local, and Municipal Street Fund - There were no significant revenue variances from the budget, nor were there any significant amendments to budgeted revenue except transfers related to road construction. Transfers to the road funds are made to provide funding for construction projects. Transfers are only made when expenditures are incurred. The expenditures recorded in these street funds are divided into two categories: construction and operation and maintenance. Variances and amendments to the budget related to construction resulted solely from the timing difference between when the projects were budgeted and when work was completed. The timing differences occur because the City's road programs typically span two fiscal years. There were no significant variances or amendments related to operations and maintenance expenditures.

Capital Improvement Fund - Actual revenues were less than budget by \$808,222 because the budgeted sale of City-owned property for \$835,000 did not take place as planned. Budgeted revenues were amended for the following: \$835,000 to include sale of the previously mentioned property; \$106,900 for a transfer of accumulated property tax sidewalk millage funds; and, \$65,000 for a transfer of funds from the Downtown Capital Projects Fund, representing a return of a portion of a previous transfer made to the Downtown Capital Projects Fund, which was not needed, as the project was completed under budget. Expenditures were under budget because planned capital projects were not completed before the year ended June 30, 2007. Budgeted expenditures were amended to include transfers for a road project as well as improvements to Shiawassee Park.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Long-term Debt Activity

Major capital asset and infrastructure additions in governmental funds consisted of the following:

1. Road improvements in the amount of \$1,010,091 for major and local street improvements including the repaving of Raphael Street and reconstruction of Shiawassee Road
2. Vehicles in the amount of \$137,704

Major capital asset and infrastructure additions in the business-type funds consisted primarily of work performed by the City related to the reconstruction of Shiawassee Road and repair of a water main.

During the current year, the City issued \$1,450,000 of Michigan Transportation Fund Bonds to fund the reconstruction of Shiawassee Road. These bonds will be repaid through Act 51 revenues.

Economic Factors and Next Year's Budgets and Rates

The City has enjoyed a relatively stable property tax millage rate over many years with the exception of a millage added in 1991 to provide for extensive revisions to the City's sewer system and a road program millage approved by the voters in 1995 to ensure streets in the City are in excellent repair. With these two additions totaling approximately 4 mills, the millage went from about 11 mills in 1990 to just over 14.4163 mills in 2006. During this time, the City also discontinued special assessments for sidewalk repairs, instead providing for sidewalk repairs through the tax millage.

Farmington is a fully developed small city and as such depends on growth in property values to offset growth in expenditures supported by taxes, and to offset reductions in state-shared revenues. Following the passage of what is referred to as Prop A, a constitutional provision and related state legislation limiting local property tax revenues, the City has aggressively sought to increase net assets to protect the City's long-term financial condition.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

As in the prior year, property taxes account for almost 59.5 percent of General Fund revenues, and property tax values have grown by an average of 3.60 percent over the last five years. State-shared revenues accounted for about 9.4 percent of General Fund revenues this year, down from 9.9 percent last fiscal year, and current funding levels remain at risk due to the financial condition and priorities of the State. Due to the uncertainty of state-shared revenues, the City decided to eliminate the statutory portion of state-shared revenue from its General Fund for the year ended June 30, 2006 and record it instead in the Capital Improvement Fund.

The City budgeted for continued increases in employee and postemployment benefit costs in the 2007-2008 fiscal year, including increased pre-funding of retiree health care benefits. The City has taken steps in labor contract negotiations and other employment agreements to contain the cost of providing health care benefits.

The City has experienced no specific events which it believes will materially impact the finances of the City but notes certain long-term trends such as capped property tax revenues and shrinking state-shared revenues, which will have a direct impact on the City's ability to provide current services as inflation in the cost of providing services continues. Adequate cash reserves and authorized unlevied millage ensures provision of current services in the near term as the City meets these challenges and plans for the future.

Contacting the City's Financial Management

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the city manager or city treasurer at City Hall, 23600 Liberty Street, Farmington, Michigan 48335.

City of Farmington, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and investments (Note 3)	\$ 9,162,117	\$ 2,149,954	\$ 11,312,071	\$ 642,324
Receivables (Note 4)	1,088,491	1,123,795	2,212,286	576
Internal balances	113,638	(113,638)	-	-
Prepaid costs and other assets	228,758	61,144	289,902	-
Restricted assets	-	75,000	75,000	-
Capital assets (Note 5):				
Depreciable	12,500,873	17,307,138	29,808,011	74,744
Nondepreciable	2,158,018	261,798	2,419,816	76,500
Total assets	25,251,895	20,865,191	46,117,086	794,144
Liabilities				
Accounts payable	325,996	372,468	698,464	16,090
Accrued and other liabilities	146,779	35,883	182,662	7,648
Due to other governmental units	71,801	193	71,994	135
Noncurrent liabilities:				
Bonds payable, due within one year (Note 7)	163,987	810,000	973,987	-
Bonds payable, due in more than one year (Note 7)	4,198,831	3,585,000	7,783,831	-
Employee compensated absences, due within one year	256,293	91,374	347,667	-
Employee compensated absences, due in more than one year	387,137	-	387,137	-
Total liabilities	5,550,824	4,894,918	10,445,742	23,873
Net Assets				
Invested in capital assets - Net of related debt	11,202,103	13,173,936	24,376,039	151,244
Restricted:				
Streets and highways	2,130,367	-	2,130,367	-
Sidewalks	105,310	-	105,310	-
Debt service	10,015	-	10,015	-
Bond covenants	-	75,000	75,000	-
Unrestricted	6,253,276	2,721,337	8,974,613	619,027
Total net assets	\$ 19,701,071	\$ 15,970,273	\$ 35,671,344	\$ 770,271

City of Farmington, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,258,253	\$ 573,906	\$ -	\$ -
Public safety	3,337,725	331,088	17,411	12,942
Public works	2,156,201	399,894	637,716	25,914
Health and welfare	17,145	-	-	-
Community and economic development	26,368	8,409	-	-
Recreation and culture	492,079	14,081	-	33,292
Interest on long-term debt	163,805	-	-	-
Total governmental activities	8,451,576	1,327,378	655,127	72,148
Business-type activities:				
Water and sewer	3,742,124	3,033,583	-	3,040
Farmington Community Theater	357,238	289,462	-	-
Total business-type activities	4,099,362	3,323,045	-	3,040
Total primary government	<u>\$ 12,550,938</u>	<u>\$ 4,650,423</u>	<u>\$ 655,127</u>	<u>\$ 75,188</u>
Component units:				
Downtown Development Authority	\$ 353,434	\$ 24,453	\$ 155,000	\$ -
Brownfield Redevelopment Authority	7,914	-	-	-
Total component units	<u>\$ 361,348</u>	<u>\$ 24,453</u>	<u>\$ 155,000</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Cable franchise fees				
Cell tower fees				
Transfers				
Gain on sale of capital assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,684,347)	\$ -	\$ (1,684,347)	\$ -
(2,976,284)	-	(2,976,284)	-
(1,092,677)	-	(1,092,677)	-
(17,145)	-	(17,145)	-
(17,959)	-	(17,959)	-
(444,706)	-	(444,706)	-
(163,805)	-	(163,805)	-
(6,396,923)	-	(6,396,923)	-
-	(705,501)	(705,501)	-
-	(67,776)	(67,776)	-
-	(773,277)	(773,277)	-
(6,396,923)	(773,277)	(7,170,200)	-
-	-	-	(173,981)
-	-	-	(7,914)
-	-	-	(181,895)
5,054,543	793,956	5,848,499	265,385
942,954	-	942,954	-
509,865	135,632	645,497	30,881
70,994	-	70,994	-
30,175	-	30,175	-
(67,748)	67,748	-	-
14,590	-	14,590	-
6,555,373	997,336	7,552,709	296,266
158,450	224,059	382,509	114,371
19,542,621	15,746,214	35,288,835	655,900
\$ 19,701,071	\$ 15,970,273	\$ 35,671,344	\$ 770,271

City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund
Assets				
Cash and investments	\$ 3,609,916	\$ 581,059	\$ 40,188	\$ 1,001,632
Receivables - Net	325,144	77,186	26,888	-
Prepaid costs and other assets	81,056	-	-	-
Due from other funds	467,103	528,460	40,799	-
Total assets	<u>\$ 4,483,219</u>	<u>\$ 1,186,705</u>	<u>\$ 107,875</u>	<u>\$ 1,001,632</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 237,959	\$ 87,650	\$ 387	\$ -
Accrued and other liabilities	87,418	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	122,161	23,231	7,488	47,089
Due to other governmental units	71,801	-	-	-
Total liabilities	519,339	110,881	7,875	47,089
Fund Balances				
Reserved for:				
Sidewalks	-	-	-	-
Debt service	-	-	-	-
Unspent bond proceeds	-	-	-	-
Inventory	47,007	-	-	-
Unreserved - Reported in:				
General Fund	2,676,218	-	-	-
Special Revenue Funds	-	566,173	100,000	719,311
Capital Projects Fund	-	-	-	-
Designated (Note 11)	1,240,655	509,651	-	235,232
Total fund balances	<u>3,963,880</u>	<u>1,075,824</u>	<u>100,000</u>	<u>954,543</u>
Total liabilities and fund balances	<u>\$ 4,483,219</u>	<u>\$ 1,186,705</u>	<u>\$ 107,875</u>	<u>\$ 1,001,632</u>

**Governmental Funds
Balance Sheet
June 30, 2007**

Major Special Revenue Fund	Major Capital Project Funds		Major Debt Service		
Capital Improvement Fund	Downtown Capital Projects Fund	Shiawassee Road Capital Projects Fund	Special Assessment Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,146,633	\$ 71,638	\$ 1,434,490	\$ 1,421	\$ 13,290	\$ 8,900,267
53,940	200,000	-	405,333	-	1,088,491
-	-	-	-	-	81,056
289,203	-	-	-	8,759	1,334,324
\$ 2,489,776	\$ 271,638	\$ 1,434,490	\$ 406,754	\$ 22,049	\$ 11,404,138
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 325,996
-	-	-	-	-	87,418
-	200,000	-	405,333	-	605,333
413,802	65,000	528,460	4	13,451	1,220,686
-	-	-	-	-	71,801
413,802	265,000	528,460	405,337	13,451	2,311,234
105,310	-	-	-	-	105,310
-	-	-	1,417	8,598	10,015
-	-	906,030	-	-	906,030
-	-	-	-	-	47,007
-	-	-	-	-	2,676,218
884	-	-	-	-	1,386,368
-	6,638	-	-	-	6,638
1,969,780	-	-	-	-	3,955,318
2,075,974	6,638	906,030	1,417	8,598	9,092,904
\$ 2,489,776	\$ 271,638	\$ 1,434,490	\$ 406,754	\$ 22,049	\$ 11,404,138

City of Farmington, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2007

Fund Balance - Total Governmental Funds	\$ 9,092,904
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	14,658,891
Long-term liabilities are due and payable in the current period and are not reported in the funds, including:	
Compensated absences	(643,430)
Interest payable	(39,361)
Bonds payable	(4,362,818)
Special assessments and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	605,333
The City's Internal Service Fund is included as part of governmental activities	<u>389,552</u>

Net Assets - Governmental Activities	<u>\$ 19,701,071</u>
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City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund
Revenues				
Property taxes	\$ 4,474,620	\$ -	\$ -	\$ 392,132
Licenses and permits	93,660	-	-	-
Federal grants	46,234	-	-	-
State-shared revenues and grants	721,472	448,810	163,749	-
Charges for services	1,320,652	-	-	-
Fines and forfeitures	402,617	-	-	-
Interest and rentals	330,794	44,989	6,847	43,271
Other	134,661	-	32,157	-
Total revenues	7,524,710	493,799	202,753	435,403
Expenditures				
Current:				
General government	1,784,784	-	-	-
Court	465,549	-	-	-
Public safety	2,302,719	-	-	-
Public services	1,012,004	906,484	414,230	-
Health and welfare	17,145	-	-	-
Community and economic development	26,368	-	-	-
Recreation and culture	444,605	-	-	-
Other (payroll taxes, insurance, benefits)	2,011,535	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	8,919	-	-	-
Total expenditures	8,073,628	906,484	414,230	-
Excess of Revenues Over (Under) Expenditures	(548,918)	(412,685)	(211,477)	435,403
Other Financing Sources (Uses)				
Transfers in	405,110	528,460	40,799	-
Transfers out	(105,311)	-	(42,774)	(40,799)
Proceeds from debt	-	-	-	-
Total other financing sources (uses)	299,799	528,460	(1,975)	(40,799)
Net Change in Fund Balances	(249,119)	115,775	(213,452)	394,604
Fund Balances - Beginning of year	4,212,999	960,049	313,452	559,939
Fund Balances - End of year	<u>\$ 3,963,880</u>	<u>\$ 1,075,824</u>	<u>\$ 100,000</u>	<u>\$ 954,543</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2007

Major Special Revenue Fund	Major Capital Projects Fund		Major Debt Service Fund		
Capital Improvement Fund	Downtown Capital Projects Fund	Shiawassee Road Capital Projects Fund	Special Assessment Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 29,806	\$ 157,985	\$ 5,054,543
-	-	-	-	-	93,660
-	-	-	-	-	46,234
238,893	-	-	-	-	1,572,924
-	-	-	-	-	1,320,652
-	-	-	-	-	402,617
104,474	4,986	15,277	27,332	3,261	581,231
-	100,000	-	47,333	-	314,151
343,367	104,986	15,277	104,471	161,246	9,386,012
-	-	-	-	-	1,784,784
-	-	-	-	-	465,549
-	-	-	-	-	2,302,719
-	50,132	-	-	8,692	2,391,542
-	-	-	-	-	17,145
-	-	-	-	-	26,368
-	-	-	-	-	444,605
-	-	30,787	-	-	2,042,322
-	-	-	50,000	114,777	164,777
-	-	-	53,264	91,230	153,413
-	50,132	30,787	103,264	214,699	9,793,224
343,367	54,854	(15,510)	1,207	(53,453)	(407,212)
170,311	-	-	-	51,466	1,196,146
(481,550)	(65,000)	(528,460)	-	-	(1,263,894)
-	-	1,450,000	-	-	1,450,000
(311,239)	(65,000)	921,540	-	51,466	1,382,252
32,128	(10,146)	906,030	1,207	(1,987)	975,040
2,043,846	16,784	-	210	10,585	8,117,864
\$ 2,075,974	\$ 6,638	\$ 906,030	\$ 1,417	\$ 8,598	\$ 9,092,904

City of Farmington, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 975,040

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the
statement of activities, these costs are allocated over their estimated
useful lives as depreciation:

Capital outlay expenditures	1,255,635
Depreciation expense	(835,768)

Revenue related to special assessments and contributions are recorded when earned in the statement of activities, and recorded only when available in the governmental funds	(165,334)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	344,063
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Proceeds from debt are not reported as financing sources on the statement of activities	(1,450,000)
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Accrued interest, recorded in the statement of activities, increased in the current year	(11,292)
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Accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities and these amounts decreased in the current year	24,084
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The City's Internal Service Fund is included as governmental activities	<u>22,022</u>
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Change in Net Assets of Governmental Activities \$ 158,450

City of Farmington, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Assets				
Current assets:				
Cash and investments	\$ 2,069,373	\$ 80,581	\$ 2,149,954	\$ 261,850
Receivables - Net	1,123,795	-	1,123,795	-
Due from other funds	16,922	-	16,922	-
Other assets	47,944	13,200	61,144	147,702
Total current assets	3,258,034	93,781	3,351,815	409,552
Noncurrent assets:				
Restricted assets	75,000	-	75,000	-
Capital assets	16,514,558	1,054,378	17,568,936	-
Total noncurrent assets	16,589,558	1,054,378	17,643,936	-
Total assets	19,847,592	1,148,159	20,995,751	409,552
Liabilities				
Current liabilities:				
Accounts payable	361,958	10,510	372,468	-
Accrued and other liabilities	29,900	5,983	35,883	20,000
Due to other funds	11,667	118,893	130,560	-
Due to other governmental units	-	193	193	-
Current portion of employee compensated absences	89,862	1,512	91,374	-
Current portion of long-term debt	765,000	45,000	810,000	-
Total current liabilities	1,258,387	182,091	1,440,478	20,000
Noncurrent liabilities - Long-term debt - Net of current portion	3,155,000	430,000	3,585,000	-
Total liabilities	4,413,387	612,091	5,025,478	20,000
Net Assets				
Investment in capital assets - Net of related debt	12,594,558	579,378	13,173,936	-
Restricted	75,000	-	75,000	-
Unrestricted net assets	2,764,647	(43,310)	2,721,337	389,552
Total net assets	<u>\$ 15,434,205</u>	<u>\$ 536,068</u>	<u>\$ 15,970,273</u>	<u>\$ 389,552</u>

City of Farmington, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Operating Revenues				
Fees	\$ -	\$ 287,426	\$ 287,426	\$ -
Water sales	1,266,390	-	1,266,390	-
Sewage disposal charges	1,652,701	-	1,652,701	-
Service charges	62,520	-	62,520	176,352
Other income	51,972	2,036	54,008	19,781
Total operating revenues	3,033,583	289,462	3,323,045	196,133
Operating Expenses				
Source of supply	1,717,801	-	1,717,801	-
Transmission, distribution, and maintenance	935,923	-	935,923	-
Administrative and general	987,307	328,523	1,315,830	-
Insurance costs	-	-	-	194,979
Total operating expenses	3,641,031	328,523	3,969,554	194,979
Operating Income (Loss)	(607,448)	(39,061)	(646,509)	1,154
Nonoperating Revenue (Expense)				
Property taxes	793,956	-	793,956	-
Investment income	132,113	3,519	135,632	20,868
Connection fees	3,040	-	3,040	-
Interest expense	(101,093)	(28,715)	(129,808)	-
Total nonoperating revenue (expense)	828,016	(25,196)	802,820	20,868
Transfers in from Other Funds	-	67,748	67,748	-
Change in Net Assets	220,568	3,491	224,059	22,022
Net Assets - Beginning of year	15,213,637	532,577	15,746,214	367,530
Net Assets - End of year	<u>\$ 15,434,205</u>	<u>\$ 536,068</u>	<u>\$ 15,970,273</u>	<u>\$ 389,552</u>

City of Farmington, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Funds			
	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,985,623	\$ 289,462	\$ 3,275,085	\$ 196,133
Payments to suppliers	(2,397,598)	(239,461)	(2,637,059)	(204,494)
Payments to employees	(723,861)	(51,888)	(775,749)	-
Internal activity - Net payments to other funds	(47,585)	(34)	(47,619)	-
Other receipts	51,972	-	51,972	-
Net cash used in operating activities	(131,449)	(1,921)	(133,370)	(8,361)
Cash Flows from Noncapital Financing Activities -				
Operating transfer	-	67,748	67,748	-
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(223,340)	-	(223,340)	-
Connection fees	3,040	-	3,040	-
Principal and interest paid on capital debt	(846,093)	(67,748)	(913,841)	-
Property taxes	793,956	-	793,956	-
Net cash used in capital and related financing activities	(272,437)	(67,748)	(340,185)	-
Cash Flows from Investing Activities - Interest received on investments	132,113	3,519	135,632	20,868
Net Increase (Decrease) in Cash and Cash Equivalents	(271,773)	1,598	(270,175)	12,507
Cash and Cash Equivalents - Beginning of year	2,416,146	78,983	2,495,129	249,343
Cash and Cash Equivalents - End of year	<u>\$ 2,144,373</u>	<u>\$ 80,581</u>	<u>\$ 2,224,954</u>	<u>\$ 261,850</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 2,069,373	\$ 80,581	\$ 2,149,954	\$ 261,850
Restricted investments	75,000	-	75,000	-
Total cash and cash equivalents	<u>\$ 2,144,373</u>	<u>\$ 80,581</u>	<u>\$ 2,224,954</u>	<u>\$ 261,850</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (607,448)	\$ (39,061)	\$ (646,509)	\$ 1,154
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	566,754	34,311	601,065	-
Changes in assets and liabilities:				
Receivables	4,012	-	4,012	-
Due from other funds	(16,922)	-	(16,922)	-
Other assets	(968)	360	(608)	(29,515)
Accounts payable	(50,658)	(807)	(51,465)	-
Accrued and other liabilities	4,444	3,310	7,754	20,000
Due to other funds	(30,663)	(34)	(30,697)	-
Net cash used in operating activities	<u>\$ (131,449)</u>	<u>\$ (1,921)</u>	<u>\$ (133,370)</u>	<u>\$ (8,361)</u>

City of Farmington, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension and Other Employee Benefits	Private Purpose Trust Fund - Cemetery Perpetual Care Trust	Agency Fund
Assets			
Cash and investments:			
Cash and cash equivalents	\$ 160,144	\$ 20,620	\$ 136,062
U.S. governmental securities	2,252,543	-	-
Corporate stock	6,405,383	-	-
Corporate bonds	3,027,467	-	-
Mutual funds	6,320,010	-	-
Foreign stock	449,674	-	-
Investment pools	2,227,877	-	-
Receivables	95,718	-	-
Due from other governmental units	3,223	-	-
Total assets	20,942,039	<u>\$ 20,620</u>	<u>\$ 136,062</u>
Liabilities			
Accounts payable	14,791	\$ -	\$ -
Accrued and other liabilities	30,081	20,620	132,077
Due to other governmental units	6,741	-	3,985
Total liabilities	51,613	<u>\$ 20,620</u>	<u>\$ 136,062</u>
Net Assets - Held in trust for pension and other employee benefits			
	<u>\$ 20,890,426</u>		

City of Farmington, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 525,933
Net realized and unrealized gain on investments	2,371,654
Less investment expenses	(121,574)
Other	7,028
	<hr/>
Net investment income	2,783,041
 Contributions:	
Employer	1,093,972
Employee	95,533
	<hr/>
Total contributions	1,189,505
	<hr/>
Total additions	3,972,546
 Deductions	
Benefit payments	1,000,445
Insurance costs	372,299
	<hr/>
Total deductions	1,372,744
	<hr/>
Net Increase in Plan Net Assets	2,599,802
 Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	18,290,624
	<hr/>
End of year	<u><u>\$ 20,890,426</u></u>

City of Farmington, Michigan

Component Units Statement of Net Assets June 30, 2007

	Component Units		
	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and investments (Note 3)	\$ 641,930	\$ 394	\$ 642,324
Receivables	576	-	576
Capital assets (Note 5):			
Depreciable	74,744	-	74,744
Nondepreciable	76,500	-	76,500
Total assets	793,750	394	794,144
Liabilities			
Accounts payable	16,090	-	16,090
Accrued liabilities	7,648	-	7,648
Due to other governmental units	135	-	135
Total liabilities	23,873	-	23,873
Net Assets			
Invested in capital assets - Net of related debt	151,244	-	151,244
Unrestricted	618,633	394	619,027
Total net assets	<u>\$ 769,877</u>	<u>\$ 394</u>	<u>\$ 770,271</u>

City of Farmington, Michigan

Component Units Statement of Activities June 30, 2007

				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Downtown Development Authority -							
General government	\$ 353,434	\$ 24,453	\$ 155,000		\$ (173,981)	\$ -	\$ (173,981)
Brownfield Redevelopment Authority -							
Redevelopment	7,914	-	-	-	-	(7,914)	(7,914)
Total component units	\$ 361,348	\$ 24,453	\$ 155,000	\$ -	(173,981)	(7,914)	(181,895)
General revenues:							
Property taxes					257,274	8,111	265,385
Unrestricted investment earnings					30,757	124	30,881
Total general revenues					288,031	8,235	296,266
Change in Net Assets					114,050	321	114,371
Net Assets - Beginning of year					655,827	73	655,900
Net Assets - End of year					\$ 769,877	\$ 394	\$ 770,271

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Farmington (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although the City’s component units are legally separate entities, in substance, they are part of the City’s operations. (See discussion below for description and treatment of each component unit.)

Blended Component Unit

The City of Farmington Employees’ Retirement System has been blended into the City’s financial statements. The system is governed by a five-member pension board that includes two individuals chosen by the City Council, two individuals chosen by the employees, and one individual, the city manager, who serves by virtue of his position. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Discretely Presented Component Units

The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of 11 individuals, is selected by the mayor with City Council approval. In addition, the Authority’s budget is subject to approval by the City.

The Brownfield Redevelopment Authority (the “BRA”) was created to assist in the redevelopment of environmentally challenged sites within the City. The BRA’s governing body, which consists of five individuals, is appointed by the mayor with City Council approval.

Note I - Summary of Significant Accounting Policies (Continued)

Jointly Governed Organizations

The City participates in the Michigan 47th District Court Administration Fund and the Farmington Community Library with the City of Farmington Hills. The City provides approximately 15 percent of the funding for the Michigan 47th District Court Administration Fund, and has recorded an equity interest in the amount of \$3,525 for the year ended June 30, 2007. The Library receives funding from a voter-approved operating millage expiring in 2024. With the approval of the operating millage, the City discontinued its funding of the library's operations.

Complete financial statements for the 47th District Court Administration Fund and the Farmington Community Library can be obtained from the City's administrative offices at 23600 Liberty Street, Farmington, Michigan 48335.

The City participates in the Southwest Oakland Cable Commission (the "Cable Commission") as a joint venture with the cities of Farmington Hills and Novi. The Cable Commission receives 3 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information for the joint venture can be obtained from the Cable Commission's administrative offices at 33300 Nine Mile Road, Farmington, Michigan.

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC). The RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of South Lyon. The RRRASOC receives its operating revenue from member contributions and miscellaneous income. The City contributed \$12,768 for the year ended June 30, 2007. Financial information for the RRRASOC can be obtained from the RRRASOC's administrative offices at 20000 West Eight Mile Road, Southfield, Michigan.

For all the above joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the future.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and state-shared revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- **General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Major Street Fund** - The Major Street Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on major streets.
- **Local Street Fund** - The Local Street Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on local streets.
- **Municipal Street Fund** - The Municipal Street Fund accounts for the resources obtained through property taxes that are used for both major and local street projects.

Note I - Summary of Significant Accounting Policies (Continued)

- **Capital Improvement Fund** - The Capital Improvement Fund accounts for the resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, downtown development, and enterprise projects; and for the acquisition of major capital assets.
- **Downtown Capital Projects Fund** - The Downtown Capital Projects Fund accounts for the resources obtained through debt issuance, city resources, and private donations, which are used for the purpose of constructing a pavilion, parks, and two residential streets in the downtown area.
- **Shiawassee Road Capital Projects Fund** - The Shiawassee Road Capital Projects Fund accounts for the resources obtained through debt issuance, which are used for the purpose of reconstructing Shiawassee Road.
- **Special Assessment Debt Service Fund** - The Special Assessment Debt Service Fund accounts for the collection of special assessments and repayment of debt service on the 2005 Capital Improvement Bonds. The special assessment was established for the purpose of funding improvements in access, parking layout and infrastructure in the area of the Farmington Central Business District, lying south of Grand River Avenue and east of Farmington Road. The bonds were issued in part to finance the project.

The City reports the following major proprietary funds:

- **Water and Sewer Fund** - The Water and Sewer Fund accounts for the water distribution system and sewage collection system.
- **Farmington Community Theater Fund** - The Farmington Community Theater Fund accounts for the operations of the Civic Theatre.

Additionally, the City reports the following fund types:

Internal Service Fund - The Self-insurance Fund accounts for the portion of the City's insurance liability not covered by commercially provided insurance.

Pension and Other Employee Benefits Funds - The Pension and Other Employee Benefits Funds account for the resources set aside by the City to provide retirement, health, and insurance benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private Purpose Trust Fund - The Private Purpose Trust Fund accounts for resources restricted for the upkeep and maintenance of the City's cemetery.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes federal grants as nonoperating revenue, since the funds are intended to recover the cost of the related infrastructure.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - All trade and property tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties are assessed.

The 2006 taxable valuation of the City totaled \$409 million, on which ad valorem taxes levied consisted of 10.6262 mills for the City's operating purposes, .1000 mills for sidewalk maintenance, 2.0894 mills for drain and sewer improvements, 1.0000 mills for street improvements and maintenance, and .3261 mills for debt service related to the new 47th District Court facility. The ad valorem taxes levied raised \$4,426,000 for operations, \$41,000 for sidewalk maintenance, \$854,000 for drain and sewer improvements, \$409,000 for street improvements and maintenance, and \$133,000 for debt service related to the 47th District Court facility. These amounts are recognized in the respective General, Special Revenue, Debt Service, and Enterprise Funds as tax revenue.

Prepaid Costs and Other Assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Other assets consist primarily of inventories, which are valued at cost, on a first-in, first-out basis.

Restricted Assets - Restricted assets consist of cash and cash equivalents in the amount of \$75,000 in the Water and Sewer Fund. These assets are restricted for a replacement reserve as required by the 1991 Water Supply and Sewer Disposal System Bond ordinance

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's capital assets are depreciated using the straight-line method over the following useful lives:

Flowage rights	25 years
County roads	20-30 years
Infrastructure	10-50 years
Buildings and improvements	5-80 years
Court building	10-50 years
Equipment and other	4-25 years
Vehicles	3-30 years
Water and sewer mains	50 years
Water storage tank	50 years
Water meters	20 years
Truck and tractors	7-15 years
Office equipment	5-20 years
Other equipment	5-15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. In the government-wide and proprietary fund financial statements, a portion of the vacation and sick pay is accrued when incurred for the amount that would be paid out upon separation of the employee from the City. In the governmental funds, a liability for these amounts is reported only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2006		\$ (162,261)
Current year building permit revenue		62,351
Related expenses:		
Direct costs	\$ 92,823	
Estimated indirect costs	<u>9,282</u>	
Total construction code expenses		<u>102,105</u>
Net shortfall for the year ended June 30, 2007		<u>(39,754)</u>
Cumulative shortfall at June 30, 2007		<u><u>\$ (202,015)</u></u>

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The City Charter requires the city manager to submit a budget for the next fiscal year to the City Council on or before the third Monday in April, and the City Council to adopt, by resolution, a budget for the next fiscal year on or after May 1 and not later than the first Monday in June. The City Council may pass amendments to the budget during the fiscal year by resolution.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and major Special Revenue Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds can be obtained from the City offices at 23600 Liberty Street, Farmington, MI 48335.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exception:

- Transfers from other funds and proceeds from sale of assets have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City had no unfavorable expenditure budget variances.

Fund Deficit - The City has an accumulated deficit of \$43,310 in the unrestricted net assets of the Farmington Community Theatre Fund. The City intends to eliminate this deficit by reducing expenditures. During the year ended June 30, 2007, the City ended its theatre management contract with an outside vendor and took over day-to-day operations. This change in operations was made to reduce costs and eliminate the deficit. In addition, Council has authorized management to transfer from the General Fund an amount sufficient to eliminate the deficit in the Farmington Community Theatre Fund in the next fiscal year.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The pension trust fund and retiree healthcare fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended). The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$3,792,764 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

General Government

Investments	0-5 years	5-15 years	> 15 years
Mutual funds	\$ 192,068	\$ -	\$ -

Retirement System

Investments	0-5 years	5-15 years	> 15 years
Collateralized mortgage obligations	\$ 140,411	\$ -	\$ -
Corporate bonds	1,122,463	1,091,673	528,931
U.S. federal agencies	-	-	71,010
Small business administration	-	36,177	-
Federal National Mortgage Association	94,752	9,212	745,609
Federal Home Loan Mortgage Corp.	-	159,329	1,129,246
Government National Mortgage Association	-	-	43,385
Foreign corporate bonds	-	107,812	-
Total	<u>\$ 1,357,626</u>	<u>\$ 1,404,203</u>	<u>\$ 2,518,181</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

General Government

Investments	Fair Value	Rating	Rating Organization
Pooled investments	\$ 1,511,996	AAA	Moody's
Pooled investments	1,174,762	A-I	Standard and Poor's
Pooled investments	6,025,363	Aaa	Moody's

Retirement System

Investments	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 101,783	AAA	Standard and Poor's
Corporate bonds	96,635	AA	Standard and Poor's
Corporate bonds	453,371	A+	Standard and Poor's
Corporate bonds	496,234	A	Standard and Poor's
Corporate bonds	221,130	AA-	Standard and Poor's
Corporate bonds	533,694	A-	Standard and Poor's
Corporate bonds	101,801	BBB+	Standard and Poor's
Corporate bonds	752,572	BBB	Standard and Poor's
Corporate bonds	93,660	BBB-	Standard and Poor's
Federal Home Loan Mortgage Corp.	1,288,576	Not Rated	
Federal National Mortgage Association	849,573	Not Rated	
U.S. federal agencies	71,010	Not Rated	
Collateralized mortgage obligations	140,411	Not Rated	
Small Business Administration Pools	36,177	Not Rated	

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Receivables

Receivables as of year end for the City's individual major funds are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Capital Improvement Fund	Downtown Capital Projects Fund	Special Assessment Debt Service	Total
Receivables:							
Taxes	\$ 30,658	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,658
Special assessments	-	-	-	-	200,000	405,333	605,333
Intergovernmental	239,400	77,186	26,888	53,791	-	-	397,265
Interest and other	55,086	-	-	149	-	-	55,235
Total receivables	<u>\$ 325,144</u>	<u>\$ 77,186</u>	<u>\$ 26,888</u>	<u>\$ 53,940</u>	<u>\$ 200,000</u>	<u>\$ 405,333</u>	<u>\$ 1,088,491</u>

Receivables as of year end for the City's Enterprise Fund are as follows:

	Water and Sewer Fund
Receivables:	
Taxes	\$ 91,412
Customer receivables	1,018,536
Intergovernmental	8,915
Other	<u>4,932</u>
Total receivables	<u>\$ 1,123,795</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. All funds, governmental and business-type, also defer revenue recognition in connection with resources that have been received or recorded as accounts receivable but not earned. At the end of the fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Special assessments	\$ 405,333
Private contributions	<u>200,000</u>
Total	<u>\$ 605,333</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,346,002	\$ -	\$ 500	\$ 1,346,502
Equity investment in 47th District Court	15,014	-	(11,489)	3,525
Construction in progress - Street projects	<u>147,727</u>	<u>691,657</u>	<u>(31,393)</u>	<u>807,991</u>
Subtotal	1,508,743	691,657	(42,382)	2,158,018
Capital assets being depreciated/ amortized:				
Flowage rights	946,170	-	-	946,170
County roads	391,690	-	-	391,690
Infrastructure	11,466,124	354,858	-	11,820,982
Buildings and improvements	3,132,912	69,936	-	3,202,848
Court building	2,310,486	-	-	2,310,486
Equipment and other	703,736	43,862	(16,989)	730,609
Vehicles	<u>1,269,456</u>	<u>137,704</u>	<u>(90,867)</u>	<u>1,316,293</u>
Subtotal	20,220,574	606,360	(107,856)	20,719,078
Accumulated depreciation/ amortization:				
Flowage rights	625,075	37,847	-	662,922
County roads	39,169	13,056	-	52,225
Infrastructure	4,113,658	458,977	-	4,572,635
Buildings and improvements	1,298,616	108,853	-	1,407,469
Court building	188,000	58,309	-	246,309
Equipment and other	517,484	45,536	(16,989)	546,031
Vehicles	<u>708,291</u>	<u>113,190</u>	<u>(90,867)</u>	<u>730,614</u>
Subtotal	<u>7,490,293</u>	<u>835,768</u>	<u>(107,856)</u>	<u>8,218,205</u>
Net capital assets being depreciated	<u>12,730,281</u>	<u>(229,408)</u>	<u>-</u>	<u>12,500,873</u>
Net capital assets	<u>\$ 14,239,024</u>	<u>\$ 462,249</u>	<u>\$ (42,382)</u>	<u>\$ 14,658,891</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 174,009	\$ -	\$ -	\$ 174,009
Construction in progress	4,999	82,790	-	87,789
Subtotal	179,008	82,790	-	261,798
Capital assets being depreciated:				
Building	1,869,017	-	-	1,869,017
Water and sewer mains	25,010,455	117,744	-	25,128,199
Water storage tank	53,791	-	-	53,791
Water meters	150,281	1,149	-	151,430
Truck and tractors	358,310	22,464	(17,024)	363,750
Office equipment	338,038	4,298	-	342,336
Other equipment	194,912	-	-	194,912
Subtotal	27,974,804	145,655	(17,024)	28,103,435
Accumulated depreciation:				
Buildings	661,623	51,124	-	712,747
Water and sewer mains	8,755,579	503,394	-	9,258,973
Water storage tank	50,572	1,076	-	51,648
Water meters	133,892	1,894	-	135,786
Truck and tractors	271,130	12,436	(11,919)	271,647
Office equipment	234,789	27,151	-	261,940
Other equipment	98,599	4,957	-	103,556
Subtotal	10,206,184	602,032	(11,919)	10,796,297
Net capital assets being depreciated	17,768,620	(456,377)	(5,105)	17,307,138
Net capital assets	<u>\$ 17,947,628</u>	<u>\$ (373,587)</u>	<u>\$ (5,105)</u>	<u>\$ 17,568,936</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Component Unit	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets not being depreciated -				
Land	\$ 76,500	\$ -	\$ -	\$ 76,500
Capital assets being depreciated:				
Land improvements	93,374	-	-	93,374
Office equipment	4,380	-	-	4,380
Green areas	29,914	-	-	29,914
Subtotal	127,668	-	-	127,668
Accumulated depreciation:				
Land improvements	15,519	3,113	-	18,632
Office equipment	3,504	875	-	4,379
Green areas	29,913	-	-	29,913
Subtotal	48,936	3,988	-	52,924
Net capital assets being depreciated	78,732	(3,988)	-	74,744
Net capital assets	<u>\$ 155,232</u>	<u>\$ (3,988)</u>	<u>\$ -</u>	<u>\$ 151,244</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 108,329
Public safety	131,463
Public works	523,826
Recreation and culture	72,150
Total governmental activities	<u>\$ 835,768</u>
Business-type activities:	
Water and sewer	\$ 566,754
Theater	35,278
Total business-type activities	<u>\$ 602,032</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Major Streets Fund	\$ 23,231
	Local Streets Fund	7,488
	Municipal Street Fund	6,290
	Capital Improvement Fund	405,110
	Water and Sewer Fund	11,600
	Farmington Community Theater Fund	1
	Nonmajor funds	<u>13,383</u>
Total General Fund		467,103
Major Streets Fund	Shiawassee Road Capital Projects Fund	528,460
Local Streets Fund	Municipal Streets Fund	40,799
Capital Improvement Fund	General Fund	105,311
	Downtown Capital Projects Fund	65,000
	Farmington Community Theater	<u>118,892</u>
Total Capital Improvement Fund		289,203
Nonmajor Funds	Capital Improvement Fund	8,692
	Water and Sewer Fund	<u>67</u>
Total Nonmajor Funds		<u>8,759</u>
Total Governmental Funds		<u>\$ 1,334,324</u>
Water and Sewer Fund	General Fund	\$ 16,850
	Nonmajor funds	<u>72</u>
Total Business Type Funds		<u>\$ 16,922</u>

Interfund balances arise from budgeted transfers occurring subsequent to year end and a short-term operating loan from the Capital Improvement Fund to the Theater Fund.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out						Total
	General Fund	Local Streets Fund	Municipal Streets Fund	Capital Improvement Fund	Downtown Capital Projects Fund	Shiawassee Road Capital Projects Fund	
Transfers in:							
General Fund	\$ -	\$ -	\$ -	\$ 405,110	\$ -	\$ -	\$ 405,110
Major Streets Fund	-	-	-	-	-	528,460	528,460
Local Streets Fund	-	-	40,799	-	-	-	40,799
Capital Improvement Fund	105,311	-	-	-	65,000	-	170,311
Nonmajor funds	-	42,774	-	8,692	-	-	51,466
Total Governmental Funds	<u>\$ 105,311</u>	<u>\$ 42,774</u>	<u>\$ 40,799</u>	<u>\$ 413,802</u>	<u>\$ 65,000</u>	<u>\$ 528,460</u>	<u>\$ 1,196,146</u>
Theater Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,748</u>

The transfer from the General Fund to the Capital Improvement Fund was made to move the resources accumulated from a sidewalk millage. The sidewalk millage is accumulated over several years and spent on specific sidewalk capital projects. It is not used for yearly operations.

The transfer from the Local Streets Fund to the nonmajor funds (1995 Act 175 Debt Fund) was made to finance a portion of the cost of the City's road programs.

The transfer from the Municipal Streets Fund to the Local Street Fund was made to finance a portion of the cost of the City's road programs.

The transfer from the Capital Improvement Fund to the General Fund was made primarily to pay for the debt service related to the purchase of a piece of property, as well as to fund the purchase of several vehicles. The transfer from the Capital Improvement Fund to the Theater Fund was made to pay for the debt service associated with the purchase of the theatre. The transfer from the Capital Improvement Fund to the nonmajor fund (Shiawassee Park Capital Projects Fund) was made to cover the costs of preliminary engineering for a switchback staircase.

The transfer from the Downtown Capital Projects Fund to the Capital Improvement Fund was made because the actual costs for the downtown project were less than anticipated. As a result, the City decided to return a portion of the funds originally transferred to the Downtown Capital Projects Fund from the Capital Improvement Fund.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfer from the Shiawassee Road Capital Projects Fund to the Major Streets Fund was made to finance a portion of the cost of the reconstruction of Shiawassee Road.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the City. The county drain contracts and Michigan Transportation Fund Bonds are also general obligations of the government. The Court Building Agreement with Farmington Hills provides for future payments to Farmington Hills related to the City's purchase of the old 47th District Court building from Farmington Hills. The Building Authority Bonds are general obligations of the Farmington Hills Building Authority. Both the City of Farmington and the City of Farmington Hills have signed lease agreements with the Farmington Hills Building Authority, which provide for lease payments in the exact amount of the debt service on the Building Authority Bonds. The City of Farmington's portion of these lease payments is recorded below. Revenue bonds involve a pledge of specific income derived from the acquired or constructed access to pay debt service.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Bond and contract obligations:							
Transportation Fund Bond:							
1995 Michigan Transportation Fund Bonds:							
Amount of issue - \$380,000	5.25%-	\$35,000-					
Maturing through 2009	5.65%	\$40,000	\$ 150,000	\$ -	\$ (35,000)	\$ 115,000	\$ 35,000
2007 Michigan Transportation Fund Bonds:							
Amount of issue - \$1,450,000		\$40,000-					
Maturing through 2021	3.9%	\$145,000	-	1,450,000	-	1,450,000	-
County drain contract -							
2003 Caddell Drain Refunding Issue:							
Amount of issue - \$286,280	2.0%-	\$22,934-					
Maturing through 2014	4.0%	\$26,097	223,805	-	(26,097)	197,708	25,307
Court Building Agreement with Farmington Hills							
Amount of issue - \$356,772							
Maturing through 2007	5.0%	\$178,386	178,386	-	(178,386)	-	-
Building Authority Bonds:							
2001 Building Authority Bonds -							
47th District Court:							
Amount of issue - \$1,400,300*	3.875%-	\$53,680-					
Maturing through 2021	5.0%	\$134,200	1,254,690	-	(54,580)	1,200,110	53,680
2005 Capital Improvement Bond:							
Amount of issue - \$1,500,000	3.50%-	\$50,000-					
Maturing through 2019	4.0%	\$155,000	1,450,000	-	(50,000)	1,400,000	50,000
Total governmental activities			\$ 3,256,881	\$ 1,450,000	\$ (344,063)	\$ 4,362,818	\$ 163,987
Business-type Activities							
General obligation bonds:							
1990 Sewer Improvements:							
Amount of issue - \$12,000,000		\$665,000-					
Maturing through 2010	2.0%	\$725,000	\$ 3,475,000	\$ -	\$ (665,000)	\$ 2,810,000	\$ 680,000
2003 Capital Improvement Sewer Bonds:							
Amount of issue - \$900,000	3.2%-	\$30,000-					
Maturing through 2023	4.8%	\$60,000	820,000	-	(30,000)	790,000	35,000
Revenue bonds:							
1991 Water Supply and Sewer Disposal							
System Bonds:							
Amount of issue - \$934,212		\$50,000-					
Maturing through 2013	2.0%	\$55,000	370,000	-	(50,000)	320,000	50,000
1999 Community Theatre Bonds:							
Amount of issue - \$690,000	5.0%-	\$40,000-					
Maturing through 2015	5.95%	\$65,000	515,000	-	(40,000)	475,000	45,000
Total business-type activities			\$ 5,180,000	\$ -	\$ (785,000)	\$ 4,395,000	\$ 810,000

* Amount represents the City of Farmington's portion of bonds issued by the City of Farmington Hills' Building Authority.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental and business-type bonds and contracts are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 163,987	\$ 171,966	\$ 335,953	\$ 810,000	\$ 113,298	\$ 923,298
2009	213,196	210,561	423,757	825,000	95,065	920,065
2010	231,616	206,785	438,401	855,000	76,278	931,278
2011	240,825	242,400	483,225	875,000	56,719	931,719
2012	290,034	232,112	522,146	150,000	43,940	193,940
2013-2017	1,696,410	1,047,113	2,743,523	540,000	135,787	675,787
2018-2022	1,526,750	817,719	2,344,469	280,000	47,452	327,452
2023	-	-	-	60,000	1,440	61,440
Total	<u>\$ 4,362,818</u>	<u>\$ 2,928,656</u>	<u>\$ 7,291,474</u>	<u>\$ 4,395,000</u>	<u>\$ 569,979</u>	<u>\$ 4,964,979</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority, a risk pool for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The MML risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The activity for the Authority is accounted for in the Self-insurance Fund.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City of Farmington Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Farmington; this plan covers nearly all employees of the City. The system provides retirement and disability benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 37 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 55 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are made. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by ordinance and by negotiation with the City's competitive bargaining units and employee groups and requires a contribution from the employees of 0 percent to 3 percent, depending on employee group. The funding policy provides for periodic employer contributions at actuarially determined rates. Investment management costs of the plan are paid by the plan.

Annual Pension Costs

For the year ended June 30, 2007, the City's annual pension cost of \$658,422 for the plan was equal to the City's actual contribution. The annual contribution was determined as part of an actuarial valuation at June 30, 2005, using the entry actual age actuarial cost method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually (including an inflation component of 5 percent), (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 5 percent per year, depending on age, attributable to seniority/merit, and (d) no postretirement benefit increase. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The excess of assets over the actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Defined Benefit Pension Plan (Continued)

Reserves

As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 392,460
Reserves for retired benefit payments	11,485,543

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension costs (APC)	\$ 658,422	\$ 341,110	\$ 206,638
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 10 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees and their eligible beneficiaries upon retirement, in accordance with labor contracts and employee agreements, and in accordance with the City of Farmington's Retiree Health Care Plan (the "Plan"). The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999 and is administered by the City of Farmington. The Plan funds the City's share of retiree healthcare insurance premiums, which are based on the employee's years of service. The City has received an actuarial estimate of the cost of providing retiree healthcare insurance and is required by ordinance to begin funding the Plan on an actuarial basis on or before July 1, 2008. Currently, 37 retirees are eligible, 30 are participating, and three are receiving payments in lieu of coverage. Contributions to the healthcare plan amounted to \$425,437 and expenditures for insurance premiums during the year amounted to approximately \$372,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Designated Fund Balance

The following is a summary of the unreserved fund balances of certain governmental funds with management's designations:

	General Fund	Major Street Fund	Municipal Street Fund	Capital Improvement Fund
Designated for:				
Cemeteries	\$ 46,259	\$ -	\$ -	\$ -
Accrued benefits	643,430	-	-	-
Other	315,616	-	-	-
Subsequent years' expenditures	<u>235,350</u>	<u>509,651</u>	<u>235,232</u>	<u>1,969,780</u>
Total designated	<u>\$ 1,240,655</u>	<u>\$ 509,651</u>	<u>\$ 235,232</u>	<u>\$ 1,969,780</u>

Required Supplemental Information

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - July 1, 2006	\$ 4,212,999	\$ 4,212,999	\$ 4,212,999	\$ -
Resources (Inflows)				
Property taxes	4,545,995	4,496,869	4,474,620	(22,249)
Licenses and permits	108,035	93,691	93,660	(31)
Federal grants	27,915	40,857	46,234	5,377
State-shared revenues and grants	762,290	730,800	721,472	(9,328)
Charges for services	1,301,775	1,292,799	1,320,652	27,853
Fines and forfeits	412,500	414,000	402,617	(11,383)
Interest and rents	273,600	303,000	330,794	27,794
Other revenue	83,600	112,629	134,661	22,032
Transfers from other funds	377,310	405,110	405,110	-
Total resources (inflows)	7,893,020	7,889,755	7,929,820	40,065
Charges to Appropriations (Outflows)				
General government	1,857,477	1,861,055	1,784,784	76,271
Court	506,195	506,195	465,549	40,646
Public safety	2,392,780	2,322,550	2,302,719	19,831
Public services	1,021,610	1,049,285	1,012,004	37,281
Health and welfare	16,048	19,207	17,145	2,062
Community and economic development	19,900	41,250	26,368	14,882
Recreation and culture	461,960	490,669	444,605	46,064
Other (payroll taxes, insurances, benefits)	1,787,753	2,062,120	2,011,535	50,585
Interest	8,920	8,920	8,919	1
Transfers to other funds	-	106,900	105,311	1,589
Total charges to appropriations (outflows)	8,072,643	8,468,151	8,178,939	289,212
Transfers to (from) Fund Balance	(179,623)	(578,396)	(249,119)	329,277
Fund Balance - June 30, 2007	\$ 4,033,376	\$ 3,634,603	\$ 3,963,880	\$ 329,277

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - July 1, 2006	\$ 960,049	\$ 960,049	\$ 960,049	\$ -
Resources (Inflows)				
State-shared revenue	379,200	379,200	384,177	4,977
Contracts and grants	96,730	85,145	64,633	(20,512)
Other revenue	5,000	31,000	44,989	13,989
Transfers from Municipal Streets Fund	370,000	-	-	-
Transfers from Shiawassee Road Fund	-	796,000	528,460	(267,540)
Transfers from Capital Improvement Fund	-	30,000	-	(30,000)
Total resources (inflows)	850,930	1,321,345	1,022,259	(299,086)
Charges to Appropriations (Outflows)				
Construction	600,000	925,428	676,145	249,283
Operations and maintenance	307,155	260,315	230,339	29,976
Total charges to appropriations (outflows)	907,155	1,185,743	906,484	279,259
Transfers to (from) Fund Balance	(56,225)	135,602	115,775	(19,827)
Fund Balance - June 30, 2007	\$ 903,824	\$ 1,095,651	\$ 1,075,824	\$ (19,827)

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - July 1, 2006	\$ 313,452	\$ 313,452	\$ 313,452	\$ -
Resources (Inflows)				
State-shared revenue	162,845	162,845	163,749	904
Other revenue	26,500	40,000	39,004	(996)
Transfer from Muncipal Streets Fund	42,800	59,633	40,799	(18,834)
Total resources (inflows)	232,145	262,478	243,552	(18,926)
Charges to Appropriations (Outflows)				
Construction	220,000	265,000	262,704	2,296
Operations and maintenance	168,500	168,130	151,526	16,604
Debt service	42,800	42,800	42,774	26
Total charges to appropriations (outflows)	431,300	475,930	457,004	18,926
Transfers from Fund Balance	(199,155)	(213,452)	(213,452)	-
Fund Balance - June 30, 2007	\$ 114,297	\$ 100,000	\$ 100,000	\$ -

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Municipal Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - July 1, 2006	\$ 559,939	\$ 559,939	\$ 559,939	\$ -
Resources (Inflows)				
Property taxes	399,500	394,520	392,132	(2,388)
Other income	<u>20,600</u>	<u>40,000</u>	<u>43,271</u>	<u>3,271</u>
Total resources (inflows)	420,100	434,520	435,403	883
Charges to Appropriations (Outflows)				
Transfer to Major Streets Fund	370,000	-	-	-
Transfer to Local Streets Fund	<u>42,800</u>	<u>59,633</u>	<u>40,799</u>	<u>18,834</u>
Total charges to appropriations (outflows)	<u>412,800</u>	<u>59,633</u>	<u>40,799</u>	<u>18,834</u>
Transfers to Fund Balance	<u>7,300</u>	<u>374,887</u>	<u>394,604</u>	<u>19,717</u>
Fund Balance - June 30, 2007	<u>\$ 567,239</u>	<u>\$ 934,826</u>	<u>\$ 954,543</u>	<u>\$ 19,717</u>

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Capital Improvement Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance With Amended Budget
Fund Balance - July 1, 2006	\$ 2,043,846	\$ 2,043,846	\$ 2,043,846	\$ -
Resources (Inflows)				
State-shared revenue	228,665	215,000	238,893	23,893
Investment income	100,000	100,000	104,474	4,474
Sale of Capital Assets	-	835,000	-	(835,000)
Transfer from General Fund	-	106,900	105,311	(1,589)
Transfer from Downtown Capital Projects Fund	-	65,000	65,000	-
Total resources (inflows)	328,665	1,321,900	513,678	(808,222)
Charges to Appropriations (Outflows)				
Transfer to General Fund	377,310	405,110	405,110	-
Transfer to Major Street Fund	-	30,000	-	30,000
Transfer to Shiawassee Park Fund	-	54,500	8,692	45,808
Transfer to Theatre Fund	67,547	67,748	67,748	-
Total charges to appropriations (outflows)	444,857	557,358	481,550	75,808
Transfers to (from) Fund Balance	(116,192)	764,542	32,128	(732,414)
Fund Balance - June 30, 2007	\$ 1,927,654	\$ 2,808,388	\$ 2,075,974	\$ (732,414)

City of Farmington, Michigan

Required Supplemental Information Retirement System Schedule of Funding Progress Year Ended June 30, 2007 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/01	\$ 16.80	\$ 11.70	\$ (5.10)	143.6	\$ 2.7	-
06/30/02	16.70	12.70	(4.00)	131.5	2.9	-
06/30/03	16.20	13.30	(2.90)	121.8	2.9	-
06/30/04	15.80	14.70	(1.10)	107.7	2.9	-
06/30/05	15.90	15.90	-	100.4	2.9	-
06/30/06	16.60	17.20	0.60	96.4	3.1	-

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
2002	06/30/01	\$ 9,873	100.0
2003	06/30/02	24,962	100.0
2004	06/30/03	141,974	100.0
2005	06/30/04	206,638	100.0
2006	06/30/05	341,110	100.0
2007	06/30/06	658,422	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation, follows:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5%-10%
*Includes inflation at	5%
Cost of living adjustments	None

Other Supplemental Information

City of Farmington, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Capital Projects	Debt Service		
	Shiawassee Park Acquisition	Nonvoted Debt Service	1995 Act 175 Debt	Total Nonmajor Governmental Funds
Assets				
Cash and investments	\$ -	\$ 13,290	\$ -	\$ 13,290
Due from other funds	8,692	67	-	8,759
Total assets	<u><u>\$ 8,692</u></u>	<u><u>\$ 13,357</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,049</u></u>
Liabilities and Fund Balances				
Liabilities - Due to other funds	\$ 8,692	\$ 4,759	\$ -	\$ 13,451
Fund Balances - Reserved	-	8,598	-	8,598
Total liabilities and fund balances	<u><u>\$ 8,692</u></u>	<u><u>\$ 13,357</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,049</u></u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2007

	Capital Projects	Debt Service Funds		Total Nonmajor
	Shiawassee		1995	Governmental
	Park	Nonvoted	Act 175	Funds
	Acquisition	Debt Service	Debt	
Revenues				
Property taxes	\$ -	\$ 157,985	\$ -	\$ 157,985
Interest income	-	3,261	-	3,261
Total revenues	-	161,246	-	161,246
Expenditures				
Public services	8,692	-	-	8,692
Principal	-	79,777	35,000	114,777
Interest	-	83,456	7,774	91,230
Total expenditures	8,692	163,233	42,774	214,699
Excess of Expenditures Over Revenues	(8,692)	(1,987)	(42,774)	(53,453)
Other Financing Sources - Transfers in	8,692	-	42,774	51,466
Net Change in Fund Balances	-	(1,987)	-	(1,987)
Fund Balances - Beginning of year	-	10,585	-	10,585
Fund Balances - End of year	<u>\$ -</u>	<u>\$ 8,598</u>	<u>\$ -</u>	<u>\$ 8,598</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension and Other Employee Benefit Funds June 30, 2007

	Employees' Retirement System	Public Employee Healthcare Fund	Employee Fringe Benefits Fund	Disability Health Insurance Fund	Total
Assets					
Cash and investments:					
Cash and cash equivalents	\$ 159,047	\$ -	\$ 1,097	\$ -	\$ 160,144
U.S. governmental securities	2,252,543	-	-	-	2,252,543
Corporate stock	6,405,383	-	-	-	6,405,383
Corporate bonds	3,027,467	-	-	-	3,027,467
Mutual funds	6,320,010	-	-	-	6,320,010
Foreign stock	449,674	-	-	-	449,674
Investment pools	-	2,162,435	-	65,442	2,227,877
Receivables	95,718	-	-	-	95,718
Due from other governmental units	681	364	2,178	-	3,223
Total assets	18,710,523	2,162,799	3,275	65,442	20,942,039
Liabilities					
Accounts payable	14,791	-	-	-	14,791
Accrued and other liabilities	30,081	-	-	-	30,081
Due to other governmental units	2,785	681	3,275	-	6,741
Total liabilities	47,657	681	3,275	-	51,613
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 18,662,866</u>	<u>\$ 2,162,118</u>	<u>\$ -</u>	<u>\$ 65,442</u>	<u>\$ 20,890,426</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Funds Year Ended June 30, 2007

	Employees' Retirement System	Public Employee Healthcare Fund	Employee Fringe Benefits Fund	Disability Health Insurance Fund	Total
Additions					
Investment income:					
Interest and dividends	\$ 465,381	\$ 57,292	\$ 192	\$ 3,068	\$ 525,933
Net realized and unrealized gain on investments	2,182,732	188,922	-	-	2,371,654
Less investment expenses	(121,574)	-	-	-	(121,574)
Other	-	7,028	-	-	7,028
Net investment income	2,526,539	253,242	192	3,068	2,783,041
Contributions:					
Employer	658,422	425,437	8,903	1,210	1,093,972
Employee	94,171	-	152	1,210	95,533
Total contributions	752,593	425,437	9,055	2,420	1,189,505
Total additions	3,279,132	678,679	9,247	5,488	3,972,546
Deductions					
Benefit payments	986,227	-	14,218	-	1,000,445
Insurance costs	-	372,299	-	-	372,299
Total deductions	986,227	372,299	14,218	-	1,372,744
Net Increase (Decrease) in Plan Assets	2,292,905	306,380	(4,971)	5,488	2,599,802
Net Assets Held in Trust for Pension and Other Employee Benefits					
Beginning of year	16,369,961	1,855,738	4,971	59,954	18,290,624
End of year	<u>\$ 18,662,866</u>	<u>\$ 2,162,118</u>	<u>\$ -</u>	<u>\$ 65,442</u>	<u>\$ 20,890,426</u>

October 12, 2007

Honorable Mayor and Members
of the City Council
City of Farmington
23600 Liberty
Farmington, MI 48335

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements of the City of Farmington for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Revenue Sharing

The future of the State's revenue sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The Legislature and the Governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent raising more than \$750 million) and to enact a new six percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County participation in Statutory Revenue Sharing:** In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue Sharing formula expires in 2007:** Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

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Changes to Michigan's Tax Structure: The Michigan Single Business Tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the Single Business Tax – called the new Michigan Business Tax – was approved by the Legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the Single Business Tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1 as described above to partially close the structural budget deficit that exists.

As introduced, the Governor's budget for fiscal year 2007/2008 includes a revenue sharing increase of \$27 million to be distributed using the three part formula currently contained in the revenue sharing act (taxable value per capita, population/unit type and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

The table below details state shared revenue for the City since 2000 broken out by statutory and constitutional portions.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2000
2000	\$543,240	\$689,396	\$1,232,636	\$ -
2001	\$535,626	\$676,371	\$1,211,997	\$20,639
2002	\$480,972	\$683,261	\$1,164,233	\$68,403
2003	\$407,583	\$694,828	\$1,102,411	\$130,225
2004	\$303,515	\$687,280	\$990,795	\$241,841
2005	\$276,312	\$703,683	\$979,995	\$252,641
2006	\$253,472	\$715,397	\$968,869	\$263,767
2007	\$238,893	\$704,061	\$942,954	\$289,682

If the State were to eliminate the statutory portion of revenue sharing, the City would lose approximately \$240,000 (as the constitutional portion cannot be modified without a change to the State's constitution). The City acknowledged this potential loss of revenue in 2006 and started to record the statutory portion in the capital improvement fund so the general fund would not be relying on these funds to balance the budget. We will continue to update the City as developments occur.

New Michigan Business Tax

As previously indicated, the new Michigan Business Tax (MBT) was approved by the Legislature in June 2007 and replaces the Single Business Tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes — a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes — specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e. impact on administrative fees; impact on school dollars available for capture for certain tax increment financing authorities; property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2007	3.7%		
2006	3.3%	2001	3.2%
2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended 2007, the City's Headlee maximum property tax rate for its operating levy was 16.2294 mills even though City Charter would allow the City to levy 20 mills for operations. Although the City's maximum allowable millage is 16.2294, in the current year the City only levied 11.0523 mills. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), will continue downward pressure on millage rates particularly given the significant gap that now exists between taxable value and state equalized value.

Property Tax Legislation

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent – until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

House Bill 4440 This bill establishes an 18 month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.

House Bill 4441 This bill increases the real estate transfer tax by .10% and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.

House Bill 4442 This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

New Cable Franchise Legislation

The Governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the “Uniform Video Services Local Franchise Act” which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5% of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2% of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.

To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.

A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills’ franchise fee.

Audits of the video service providers’ calculation of gross revenue are limited to once every two years.

It is expected that local governments will receive their first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

Post Employment Benefits

As discussed last year, there were two new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). GASB 43 and 45 address the accounting and disclosures related to post-employment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2007-2008, the City will be required to measure its retiree health care liability through actuarial valuations that are to be performed biannually. These valuations will compute an "annual required contribution". The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. The City currently has funds set aside in the Public Employees Health Care Fund to help offset a portion of this liability. We commend the City for having the foresight to begin pre-funding this liability.

Bonding to Fund Liability for Other Post Employment Benefits

The day quickly approaches for local governments to measure the liability for non-pension benefits granted to government employees at retirement (most notably retiree health care). Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you go plan (which is the path for most local governments) or a combination thereof. To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan Legislature and vetoed by the Governor. It was expected that the legislation was going to be reconsidered in 2007.

Very truly yours,

Plante & Moran, PLLC



Gordon E. Krater



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